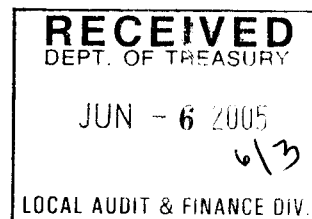


**VANMASSENHOVE, KEARLY, TAPHOUSE & FAULMAN, P.C.**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
120 N. RIPLEY STREET  
ALPENA, MICHIGAN 49707-2967

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**NORTHLAND LIBRARY COOPERATIVE**

**Financial Statements**  
**September 30, 2004**

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>NORTHLAND LIBRARY COOPERATIVE</b>	County <b>ALPENA</b>
Audit Date <b>9/30/04</b>	Opinion Date <b>5/31/05</b>	Date Accountant Report Submitted to State: <b>6/3/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

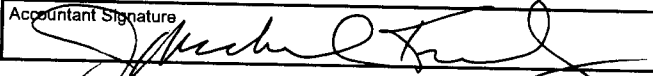
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>VANMASSENHOVE, KEARLY, TAPHOUSE &amp; FAULMAN, P.C.</b>			
Street Address <b>120 N. RIPLEY STREET</b>		City <b>ALPENA</b>	State <b>MI</b>
Accountant Signature 		ZIP <b>49707-2967</b>	Date <b>5-31-05</b>

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ALPENA, MICHIGAN 49707-2967

Gary C. VanMassenhove, CPA  
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**Independent Auditors' Report**

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Northland Library Corporative  
Alpena, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregated discretely presented component units, each major fund, and the aggregate remaining fund information of Northland Library Cooperative as of and for the year ended September 30, 2004, which collectively comprise the Northland Library Cooperative's basic financial statements as listed in the index. These financial statements are the responsibility of Northland Library Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Northland Library Cooperative as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, there of for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Northland Library Cooperative has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, as of September 30, 2004.

The management's discussion and analysis and budgetary comparison information on pages 3a through 3e and 23, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Northland Library Cooperative basic financial statements. The introductory section, combining and individual non-major fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Vin Massalone, Karen Tapham & Paulson PC*

May 31, 2005

**Northland Library Cooperative  
Management's Discussion & Analysis  
For the Year Ended September 30, 2004**

Our discussion and analysis of the Northland Library Cooperative's financial performance provides an overview of the Northland Library Cooperative's financial activities for the fiscal year ended September 30, 2004.

**Using this Annual Financial Report**

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Northland Library Cooperative financially as a whole. The *Financial Statements* provide information about the activities of the whole Northland Library Cooperative presenting both an aggregate view of the Northland Library Cooperative finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For Government activities, these statements tell how services were financed in the short-term as well as what remains for future spending.

The fund financial statements look at the Northland Library Cooperative's operations in more detail than the Northland Library Cooperative wide financial statements by providing information about the Northland Library Cooperative's most significant fund – the General fund. Proprietary fund statements provide both long-term and short-term financial information consistent with the focus provided by the Northland Library Cooperative's wide financial statements for the Northland Library Cooperative's internet operation.

The following summarizes the presentation included in this annual financial report.

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

Basis Financial Statements

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

Budgetary Information for the General Fund (Required supplemental Information)

**Northland Library Cooperative  
Management's Discussion & Analysis  
For the Year Ended September 30, 2004**

**Reporting the Northland Library Cooperative as a Whole**

*The Statement of Net Assets and Statement of Activities*

One of the most important questions asked about the Northland Library Cooperative's finances is, "is the Northland Library Cooperative better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Northland Library Cooperative as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the Northland Library Cooperative's net assets as a way to measure the Northland Library Cooperative's financial position. The change in net assets provides the reader a tool to assist in determining whether the Northland Library Cooperative's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as facility conditions in arriving at their conclusion regarding the overall health of the Northland Library Cooperative.

**Reporting the Northland Library Cooperative's Most Significant Funds**

*Fund Financial Statements*

The Northland Library Cooperative's fund financial statements provide detailed information about the most significant funds – not the Northland Library Cooperative as a whole. The Northland Library Cooperative's two types of funds, Governmental and Proprietary uses different accounting approaches as further described in the notes to the financial statements.

*Governmental Funds*

Most of the Northland Library Cooperative's activities are reported in Governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The Governmental fund statements provide a detailed short-term view of the Northland Library Cooperative's general operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the Northland Library Cooperative's programs. The relationship (or differences) between Governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and Governmental funds is reconciled in the basic financial statements.

**Northland Library Cooperative  
Management's Discussion & Analysis  
For the Year Ended September 30, 2004**

*Proprietary Funds*

These funds are reported in fund financial statements and generally report services for which the Northland Library Cooperative charges a fee. Enterprise funds essentially encompass the same functions reported as business-type activities in the Northland Library Cooperative-wide statements.

This fund presents the Northland Library Cooperative's Internet operation. The Northland Library Cooperative has sole authority to set rates and is financially responsible for the integrity of the system. The financial statements reflect the financial position and results of operations for the system for the year 2003-2004.

**Northland Library Cooperative Wide Financial Analysis**

Financial position – The statement of net assets provides the perspective of the Northland Library Cooperative as a whole. Exhibit A provides a summary of the Northland Library Cooperative's net assets as of September 30, 2004.

**Exhibit A**

	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Total</u>
<b><u>Assets</u></b>			
Cash and Investments	\$159,436	\$183,460	\$342,896
Accounts Receivable	524	-0-	524
Prepaid Expenses	1,721	-0-	1,721
Capital Assets Less Accumulated Depreciation	49,610	-0-	49,610
Total Assets	211,291	183,460	394,751
<b><u>Liabilities</u></b>			
Deferred Revenues	5,092	7,385	12,477
Total Liabilities	5,092	7,385	12,477
<b><u>Net Assets</u></b>			
Investment in Capital Assets	49,610	-0-	49,610
Unrestricted	156,589	176,075	332,664
Total Net Assets	\$206,199	\$176,075	\$382,274



**Northland Library Cooperative  
Management's Discussion & Analysis  
For the Year Ended September 30, 2004**

Exhibit A, on the previous page, focuses on net assets. The Northland Library Cooperative's total net assets were \$382,274 at September 30, 2004. Capital assets net of related debt, totaling \$49,610 compares the original costs, less depreciation.

The \$332,664 of unrestricted net assets of Governmental and business-type activities represents the *accumulated* results of all past years' operations. The operating results of the General, Capital Projects and Enterprise Funds will have a significant impact on the change in unrestricted net assets from year to year.

**Results of operations** – The results of this year's operations for the Northland Library Cooperative as a whole are reported in the statement of activities, which shows the changes in net assets for the year ended September 30, 2004. Exhibit B provides a summary of the Northland Library Cooperative operations for the year. Since this is the first year the Northland Library Cooperative has prepared financial statements following GASB Statement No. 34, revenue and expense comparison to fiscal year 2003 is not available.

**Governmental Business-Type**

<u>Exhibit B</u>	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Total</u>
Revenue			
Program services:			
Charges for services	\$ 14,306	\$134,165	\$148,471
Grants & Contributions	254,404	-0-	254,404
General Revenue:		-0-	
State Aid	265,387	-0-	265,387
Universal Services Fund	3,082	-0-	3,082
Interest	4,000	-0-	4,000
Total Revenue	<u>541,179</u>	<u>134,165</u>	<u>675,344</u>
Function & Program Expenses			
General Government	148,287	-0-	148,287
Grants	250,707	-0-	250,707
Information Services	54,844	-0-	54,844
Catalog Services	50,594	-0-	50,594
Library for the Blind and Physically Handicapped	49,522	-0-	49,522
Internet Services	-0-	98,656	98,656
Total Expenses	<u>553,954</u>	<u>98,656</u>	<u>652,610</u>
Increase (Decrease) in Net Assets	<u>\$ (12,775)</u>	<u>\$ 35,509</u>	<u>\$ 22,734</u>

**Northland Library Cooperative  
Management's Discussion & Analysis  
For the Year Ended September 30, 2004**

As reported in the statement of activities, the cost of all of our *Governmental and business-type* activities this year was \$652,610. Certain activities were partially funded by \$148,471 from those who benefited from the programs. We paid for the remaining "public benefit" portion of our Governmental and business-type activities with Universal Service Fund, \$265,387 in State Aid and with our other revenues, such as interest, grants and contributions.

The Northland Library Cooperative experienced an increase (decrease) in net assets of \$22,734, mainly due to actual expenditures being less than anticipated. There were no significant revenue increases this year. The increase (decrease) in net assets differs from the change in fund balances and a reconciliation appears in the financial statements.

**General Fund Budgetary Highlights**

Over the course of the year, the Northland Library Cooperative revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Northland Library Cooperative's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

- Budgeted revenue were increased about \$59,000
- Budgeted expenditures were decreased about \$43,000 during the fiscal year. The overall change was not significant.
- Actual expenditures for the year were \$61,000 more than anticipated due to payoff on loan balance.

**Factors Expected to Have an Effect on Future Operations**

We expect to see a decline in state aid next year as the State of Michigan continues to face challenges in balancing its budget. We will need to adjust Northland Library Cooperative expenditures in response to any revenue shortfall and the Internet fees will continue to decline as customers change to faster connections.

**Contacting The Northland Library Cooperative**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Northland Library Cooperative's finances and to show the Northland Library Cooperative's accountability for the money it receives. If you have questions about this report or need additional information, contact the Northland Library Cooperative at 316 E. Chisholm, Alpena, MI 49707.

**Northland Library Cooperative**  
**Statement of Net Assets**  
**September 30, 2004**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<u>Assets</u>			
Cash and Investments	\$159,436	\$183,460	\$342,896
Accounts Receivable	524	-0-	524
Prepaid Expenses	1,721	-0-	1,721
Capital Assets Less Accumulated Depreciation	49,610	-0-	49,610
Total Assets	211,291	183,460	394,751
<u>Liabilities</u>			
Deferred Revenues	5,092	7,385	12,477
Total Liabilities	5,092	7,385	12,477
<u>Net Assets</u>			
Investment in Capital Assets	49,610	-0-	49,610
Unrestricted	156,589	176,075	332,664
Total Net Assets	\$206,199	\$176,075	\$382,274

**Northland Library Cooperative**  
**Statement of Activities**  
**For the Year Ended September 30, 2004**

Functions/Programs	Program Revenues			Net (Expenses) Revenues and Changes in		
	Expenses	Charges for Services	Operating Grants/Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:						
General Government	\$ 148,287	\$ 14,306	\$ -0-	\$ (133,981)	\$ -0-	\$ (133,981)
Grants	250,707	-0-	246,965	(3,742)	-0-	(3,742)
Information Services	54,844	-0-	-0-	(54,844)	-0-	(54,844)
Catalog Services	50,594	-0-	-0-	(50,594)	-0-	(50,594)
Library for the Blind and Physically Handicapped	49,522	-0-	-0-	(49,522)	-0-	(49,522)
Total Governmental Activities	553,954	14,306	246,965	(292,683)	-0-	(292,683)
Business-type activities:						
Internet	98,656	134,165	-0-	-0-	35,509	35,509
Total	\$ 652,610	\$ 148,471	\$ 246,965	(292,683)	35,509	(257,174)
General revenues:						
State Aid				265,387	-0-	265,387
Universal Service Fund				3,082	-0-	3,082
Donations				7,439	-0-	7,439
Interest				4,000	-0-	4,000
Total Government Revenues				279,908	-0-	279,908
Change in net assets				(12,775)	35,509	22,734
Net assets - beginning of year				169,364	140,566	309,930
Net assets - end of year				\$ 156,589	\$ 176,075	\$ 332,664

**Northland Library Cooperative  
Governmental Fund  
Balance Sheet  
September 30, 2004**

	<u>General</u>
<u>Assets</u>	
Cash and Investments	\$ 159,436
Accounts Receivable	524
Prepaid Expenses	<u>1,721</u>
Total Assets	<u><u>\$ 161,681</u></u>
<u>Liabilities and Fund Balance</u>	
<u>Liabilities</u>	
Deferred Revenues	<u>\$ 5,092</u>
Total Liabilities	<u>5,092</u>
<u>Fund Balance</u>	
Undesignated	<u>156,589</u>
Total Liabilities & Fund Balance	<u><u>\$ 161,681</u></u>

**Northland Library Cooperative**  
**Reconciliation of Balance Sheet of Governmental Fund**  
**to the Statement of Net Assets**  
**September 31, 2004**

Total fund balances - governmental funds

\$156,589

Amounts reported for governmental activities in the statements  
of activities are different because:

Capital assets used in governmental activities are not financial  
resources and are not reported in the funds:

Cost of the capital assets

\$362,654

Accumulated depreciation

(313,044)

49,610

Total net assets - governmental activities

\$206,199

**Northland Library Cooperative**  
**Government Funds**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**For the Year Ended September 30, 2004**

<u>Revenues</u>	<u>General</u>
Direct State Aid	\$ 178,524
Indirect State Aid	86,863
Read Act Funding	18,666
LSTA 303-03	208,150
Universal Service Fund	3,082
Contractual Income	4,614
Donations	7,439
Rent - Internet	8,000
Conference Income	1,692
PAC II	399
Miscellaneous Grant Related	19,750
Interest Income	4,000
Total Revenues	<u>541,179</u>
<u>Expenditures</u>	
Administrative Services	82,205
Information Services	54,844
Catalog Services	50,594
Library for the Blind	
and Physically Handicapped	49,522
Grant Expenditures	250,707
Principal Retirement	61,682
Interest	4,400
Total Expenses	<u>553,954</u>
Net change in Fund Balance	(12,775)
Fund Balance - beginning of year	<u>169,364</u>
Fund balance - end of year	<u>\$ 156,589</u>

**Northland Library Cooperative**  
**Reconciliation of the Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances of Governmental Funds to the Statement of Activities**  
**For the Year Ended September 30, 2004**

Net change in fund balances - total governmental funds	\$ (12,775)
Amounts reported for governmental activities in the statements of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation;	
Depreciation expense	<u>(4,809)</u>
Change in net assets of governmental activities	<u><u>\$ (17,584)</u></u>



**Northland Library Cooperative**  
**Statement of Revenue, Expenses and Changes in Fund Net Assets**  
**Proprietary Fund**  
**For the Year Ended September 30, 2004**

Operating Revenues		
Internet Charge		\$ 134,165
	Total operating Revenues	<u>134,165</u>
Operating Expenses		
Salaries & Wages		23,738
Professional & Contractual		64,905
Office Supplies		492
Communications		436
Rent		8,000
Audit		1,085
	Total Operating Expenses	<u>98,656</u>
	Operating Income - Change in Net Assets	35,509
Net Assets - Beginning of Year		<u>140,566</u>
Net Assets - End of Year		<u>\$ 176,075</u>

**Northland Library Cooperative**  
**Statement of Cash Flows**  
**Proprietary Fund**  
**For the Year Ended September 30, 2004**

Cash Flows From Operating Activities:	
Cash Received from Customers	
Cash Received from Customers - Current	\$ 113,670
Cash Received from Customers - Prepaid	7,385
Cash Payments to Suppliers for Goods & Services	(74,918)
Cash Payments to Employees for Services	(23,738)
Net Cash Provided by (used in) operating activities	<u>22,399</u>
Cash Flows from Capital and Related Financing Activities	-0-
Cash Flows from Investing Activities	-0-
Net Increase (decrease) in cash and cash equivalents	22,399
Cash and Cash equivalents, beginning of year	<u>161,061</u>
Cash and Cash Equivalents, end of year	<u><u>\$ 183,460</u></u>

**Reconciliation of Operating Income to Net Cash Provided by Operating Activities**

Net Operating Income (Loss)	\$ 35,509
Adjustment to Reconcile Operating Income (Loss)	
to Net Cash Provided by Operating Activities	
by Operating Activities	
Deferred Revenues	<u>(13,110)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 22,399</u></u>

**Northland Library Cooperative**  
**Notes to Financial Statements**  
**For the Year Ended September 30, 2004**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Northland Library Cooperative conform to United States generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies used by the Northland Library Cooperative.

**Reporting Entity**

The Northland Library Cooperative (the Cooperative), a not-for-profit entity established under the laws of the State of Michigan, [links a group of Northern Michigan] public libraries in areas of common interest and benefit. These areas include interlibrary lending, resource sharing services, advocacy, consulting, continuing education, and the Library for the Blind and Physically Handicapped. The Cooperative is supported primarily through Federal and State Aid administered by the Library of Michigan.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenue.

**Measurement Focus, Bases of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the propriety fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**Northland Library Cooperative  
Notes to Financial Statements  
For the Year Ended September 30, 2004**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Northland Cooperative Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. [Expenditures generally are recorded when a liability is incurred, as under accrual accounting.] Expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State-shared revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue in the current fiscal period.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

The Northland Library Cooperative reports the following major governmental funds:

**General Fund** – The General Fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from state distributions, grants and other intergovernmental revenues.

**Assets, Liabilities, and Net Assets or Equity**

Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments. Investments are stated at fair value.

Receivables

All trade receivables are shown as net of allowance for uncollectible amounts.

**Northland Library Cooperative**  
**Notes to Financial Statements**  
**For the Year Ended September 30, 2004**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Capital Assets – Capital assets, which include land, buildings, equipment and infrastructure assets are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$10,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add value or materially extend asset lives are not capitalized.

Land, building, equipment and infrastructure is depreciated using the straight-line method over the following useful lives:

Buildings	20 Years
Vehicles	4 Years
Office and computer equipment	5 to 10 Years

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates – The process of preparing the basic financial statements in conformity with U.S.A. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Accounting Change – Effective April 1, 2003, the Northland Library Cooperative implemented the provisions of Governmental Accounting Standards Board Statement No. 34, [*Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments*] (GASB No. 34). Changes to the Northland Library Cooperative's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the Northland Library Cooperative's overall financial position and results of operations has been included.

**Northland Library Cooperative**  
**Notes to Financial Statements**  
**For the Year Ended September 30, 2004**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Northland Library Cooperative's activities have been provided. Statement 34 requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted.

**NOTE 2 – BUDGETS**

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds of governments prior to the expenditure of monies in a fiscal year.

The Northland Library Cooperative follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Northland Library Cooperative's Director submits to the Board a proposed budget prior to October 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year. Individual amendments were not material in relation to the original appropriations. Budgets are adapted to the functional level.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board) for the General Fund is presented as Required Supplemental Information.

Excess of Expenditures Over Appropriations in Budgeted Funds – During the year, the Northland Library Cooperative incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

<u>Fund/Function</u>	<u>Total Appropriation</u>	<u>Amount of Expenditure</u>	<u>Budget Variance</u>
General Fund:			
Principal Retirement – Note 5	\$       -0-	\$61,682	\$61,682

**Northland Library Cooperative**  
**Notes to Financial Statements**  
**For the Year Ended September 30, 2004**

**NOTE 3 – DEPOSITS AND INVESTMENTS**

Michigan Compiled Laws, Section 129.91, authorizes the Northland Library Cooperative to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Northland Library Cooperative is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rates within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. The Government's deposits are in accordance with statutory authority.

At year-end, the Northland Library Cooperative's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Cash and investments	<u>\$ 159,436</u>	<u>\$ 183,460</u>	<u>\$ 342,896</u>

The breakdown between deposits and investments is as follows:

Bank deposits (checking and savings accounts, certificates of deposit)	\$ 342,826
Petty cash and cash on hand	<u>70</u>
Total	<u>\$ 342,896</u>

The bank balance of the Northland Library Cooperative's deposits is \$353,799, of which \$200,000 is covered by federal depository insurance.

**Northland Library Cooperative**  
**Notes to Financial Statements**  
**For the Year Ended September 30, 2004**

**NOTE 4 – CAPITAL ASSETS**

	Balance September 30, 2003	Additions	Deletions	Balance September 30, 2004
<u>Governmental Activities:</u>				
Equipment	220,655	\$ -0-	\$ -0-	\$ 220,655
Vehicle	20,809	-0-	-0-	20,809
Land and building	121,190	-0-	-0-	121,190
	362,654			362,654
Less accumulated depreciation	(308,235)	(4,809)	-0-	(313,044)
Total	54,419	\$ (4,809)	\$ -0-	\$ 49,610

	Balance September 30, 2003	Additions	Deletions	Balance September 30, 2004
<u>Business Type Activities:</u>				
Equipment	\$ 9,125	\$ -0-	\$ -0-	\$ 9,125
Less Accumulated Depreciation	(9,125)	-0-	-0-	(9,125)
Total	\$ -0-	\$ -0-	\$ -0-	\$ -0-

**NOTE 5 – LONG TERM DEBT**

Long-term debt is described as follows:

	September 30, 2004		September 30, 2003	
	Total	Current	Total	Current
Land contract – Besser Foundation, Payable \$921 per month, including interest At 7 ½ %, secured by land and building. Note was paid in full September 2004.	\$ -0-	\$ -0-	\$61,682	\$ 6,655



**Northland Library Cooperative  
Notes to Financial Statements  
For the Year Ended September 30, 2004**

**NOTE 6 – RETIREMENT PLANS (CONTINUED)**

**Normal Retirement** – A member may retire after reaching the age of 60 with six or more years of service, age 55 with 15 or more years of credited service (reduced benefit unless Benefit F55 is in effect), or upon reaching age 50 with 25 or more years of credited service (reduced benefit unless Benefit F50 is in effect).

**Deferred Retirement** – Termination of membership before age 60 other than by retirement or death, after 10 years of credited service (8 or 6 year if Benefit V-8 or V-6 is adopted). Retirement allowance begins upon application and satisfaction of the eligibility requirements for retirement. The deferred retirement allowance is computed in the same manner as a service retirement allowance, based on the benefit program in effect as of the date of termination of membership.

Rights to an allowance are forfeited if the member's accumulated contributions are withdrawn after termination of employment.

**Service Retirement Allowance** – Credited service at time of termination of membership multiplied by

Benefit B-1—1.7% of FAC

Benefit B-2—2.0% of FAC

The retirement allowance is reduced  $\frac{1}{2}$  of 1 percent for each completed month that retirement precedes the age at which full normal retirement benefits are available.

**Disability Retirement Allowance** – Total and permanent disability while employed by a participating municipality and after acquiring 10 or more years of credited services. The service requirement is waived if the disability is from service connected causes.

The allowance is computed in the same manner as a service retirement allowance except that the reduction for retirement before age 60 is not applied.

If a disability is from service-connected causes, the amount of retirement allowance shall be computed as if the member has acquired exactly six years of credited service if the actually acquired credit service is less than six years.

**Non-Duty Death Allowance** – If a member or vested former member with six or more years of service dies before retirement, a monthly survivor allowance may be payable.

A named contingent survivor beneficiary (if any) will receive a retirement allowance computed in the same manner as a service retirement allowance, but reduced to reflect an Option II (100% joint and survivor) election. The reduction for retirement before age 60 is not applied.

**Northland Library Cooperative**  
**Notes to Financial Statements**  
**For the Year Ended September 30, 2004**

**NOTE 6 – RETIREMENT PLANS (CONTINUED)**

**Deferred Retirement** – Termination of membership before age 60 other than by retirement or death, after 10 years of credited service (8 or 6 year if Benefit V-8 or V-6 is adopted). Retirement allowance begins upon application and satisfaction of the eligibility requirements for retirement. The deferred retirement allowance is computed in the same manner as a service retirement allowance, based on the benefit program in effect as of the date of termination of membership.

Rights to an allowance are forfeited if the member's accumulated contributions are withdrawn after termination of employment.

**Service Retirement Allowance** – Credited service at time of termination of membership multiplied by

Benefit B-1—1.7% of FAC

Benefit B-2—2.0% of FAC

The retirement allowance is reduced  $\frac{1}{2}$  of 1 percent for each completed month that retirement precedes the age at which full normal retirement benefits are available.

**Disability Retirement Allowance** – Total and permanent disability while employed by a participating municipality and after acquiring 10 or more years of credited services. The service requirement is waived if the disability is from service connected causes.

The allowance is computed in the same manner as a service retirement allowance except that the reduction for retirement before age 60 is not applied.

If a disability is from service-connected causes, the amount of retirement allowance shall be computed as if the member has acquired exactly six years of credited service if the actually acquired credit service is less than six years.

**Non-Duty Death Allowance** – If a member or vested former member with six or more years of service dies before retirement, a monthly survivor allowance may be payable.

A named contingent survivor beneficiary (if any) will receive a retirement allowance computed in the same manner as a service retirement allowance, but reduced to reflect an Option II (100% joint and survivor) election. The reduction for retirement before age 60 is not applied.

**Northland Library Cooperative**  
**Notes to Financial Statements**  
**For the Year Ended September 30, 2004**

**NOTE 6 – RETIREMENT PLANS (CONTINUED)**

If there is no named beneficiary and the member leaves a spouse, the spouse will receive survivor allowance. Payment of a retirement allowance to the surviving spouse of a deceased member commences immediately. Payment of a retirement allowance to a surviving spouse of a deceased vested former member commences on the date the member would have first satisfied a Section 10 age and service requirement for an unreduced service retirement allowance. The amount of a surviving spouse's retirement allowance shall be 85 percent of the deceased member's or deceased vested former member's accrued retirement allowance computed in the same manner as a service retirement allowance, based on service and final average compensation at time of death.

If there is no named beneficiary and no retirement allowance being paid to a surviving spouse, unmarried children under age 21 will be paid an equal share of 50 percent of the deceased member's or deceased vested former member's accrued retirement allowance. The reduction for retirement before age 60 is not applied.

**Duty Connected Death** – A duty death allowance computed in the same manner as a non-duty death allowance may be payable to a spouse or children if death occurs as the result of performance of duty with a participating municipality. The six year service requirement is waived, and the minimum benefit is 25 percent of the deceased member's final average compensation.

If no retirement allowance becomes payable at death, the member's accumulated contributions are paid to his or her beneficiary.

The Cooperative makes annual contributions based on the annual actuarial valuations.

**Funding Status and Progress**

The amount shown below as the "pension benefit obligation" is based on a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to: (1) help users assess the plan's funding status of the system on a going-concern basis; (2) assess progress made in accumulating sufficient assets to pay benefits when due; and (3) make comparisons among public employee retirement plans. The measure is independent of the actuarial funding method used to determine contributions to the plan.

The pension benefit obligation was determined as part of an actuarial valuation of the plan as of December 31, 2000. Significant actuarial assumptions used in determining the pension benefit obligation include (a) a rate of return on the investment of present and future assets of 8.0 percent per year compounded annually; (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation; (c) additional projected salary increases ranging from 0.0 percent to 4.2 percent per year, depending on age, attributable to seniority/merit;

**Northland Library Cooperative**  
**Notes to Financial Statements**  
**For the Year Ended September 30, 2004**

**NOTE 6 – RETIREMENT PLANS (CONTINUED)**

and (d) the assumption that benefits will increase 2.5% annually after retirement, for persons under Benefit E-1 or E-2.

At December 31, 2003, the unfunded pensions benefit obligations for Alpena County was \$2,413,971 determined as follows:

The following information has been prepared to provide the information necessary to comply with GASB Statements Number 25 and 27. Statement 25 is effective for fiscal years beginning after June 15, 1996 and Statement 27 is effective for fiscal years beginning after June 15, 1998.

All entries and the annual employer contribution amount were based on the actuarial methods and assumptions used in the December 31, 2003 actuarial valuation. The entry age normal actuarial method was used to determine the disclosure entries.

**GASB 25 Information (as of 12/31/2003)**  
**Actuarial Accrued Liability**

Retirees and beneficiaries currently receiving benefits	\$3,646,134
Terminated employees (vested former members) not yet receiving benefits	496,161
Non-vested terminated employees (pending refunds of Accumulated member contributions)	1,848
Current employees – Accumulated employee contributions including allocated investment income	229,990
Employer financed	<u>6,695,441</u>
Total Actuarial Accrued Liability	11,069,544
Net Assets Available for Benefits at Actuarial Value	<u>8,655,573</u>
(Market Value is \$7,903,470)	
Unfunded (Overfunded) Actuarial Accrued Liability	<u>\$ 2,413,971</u>

**GASB 27 Information (as of 12/31/2003)**

Fiscal Year Beginning	January 1, 2005
Annual Required Contribution (ARC)	\$378,384*
Amortization Factor Used – Underfunded Liabilities (30 years)	0.053632
Amortization Factor Used – Underfunded Liabilities (26 years)	0.058519

**Northland Library Cooperative**  
**Notes to Financial Statements**  
**For the Year Ended September 30, 2004**

**NOTE 6 – RETIREMENT PLANS (CONTINUED)**

\*Based on valuation payroll, but the actual required contribution will be based on current monthly payroll (during the fiscal year beginning January 1, 2005) times the computed employer contribution rate.

At December 31, 2003, Northland Library Cooperative had valuation assets greater than actuarial accrued liabilities of \$10,272.

**Contributions Required and Contributions Made**

MMERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2001 were determined using an attained age actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years.

Beginning January 1, 2003 Annual required contribution will be \$381,216 using amortization factor of 0.053632 for underfunded liabilities (30 years) and 0.053632 for overfunded liabilities (28 years).

During the fiscal year ended December 31, 2003, employer contributions for Alpena County were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2000. The percentage of projected covered payroll represented by employer contributions during that year is equal to 1.06825 times December 31, 2000 valuation payroll. Employer contributions for Northland Library Cooperative for the year ended December 31, 2003 were \$10,583.

The effect of changes in actuarial assumptions or methods affecting the December 31, 2000 actuarial valuation and the effect of changes in benefit provisions, if any, on the computed employer contribution was not computed.

Significant actuarial assumptions used to compute contribution requirements were the same as those used to compute the standardized measure of the pension benefit obligation.

**NOTE 7 – RENT**

The Enterprise Fund pays rent to the General Fund for office space and utilities. The rent for 2003-2004 was \$8,000 annually. The lease is renewed annually by the board. The rent for the next five years based on current rate would be \$8,000 annually.

**Northland Library Cooperative**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule - General Fund**  
**For the Year Ended September 30, 2004**

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variances with Final Budget Favorable (Unfavorable)</u>
<b><u>Revenues</u></b>				
Direct State Aid	\$ 128,926	\$ 178,524	\$ 178,524	-0-
Indirect State Aid	84,952	86,863	86,863	-0-
Reed Act Funding	2,000	18,666	18,666	-0-
LSTA 303- 03	217,863	208,150	208,150	-0-
Universal Service Fund	3,100	3,082	3,082	-0-
Contractual Income	3,000	4,614	4,614	-0-
Donations	-0-	7,439	7,439	-0-
Rent - Internet	8,000	8,000	8,000	-0-
Conference Income	1,200	1,692	1,692	-0-
PAC 2	-0-	399	399	-0-
Miscellaneous Grant Related	30,000	19,750	19,750	-0-
Interest Income	3,000	4,000	4,000	-0-
Total Revenues	<u>482,041</u>	<u>541,179</u>	<u>541,179</u>	<u>-0-</u>
<b><u>Expenditures</u></b>				
Administrative Services	139,818	82,205	82,205	-0-
Information Services	81,204	54,844	54,844	-0-
Catalog Services	28,935	50,594	50,594	-0-
Library for the Blind and Physically Handicapped	46,691	49,522	49,522	-0-
Grant Expenditures	227,815	250,707	250,707	-0-
Principal Retirement	5,731	-0-	61,682	(61,682)
Interest	5,324	4,400	4,400	-0-
Total Expenses	<u>535,518</u>	<u>492,272</u>	<u>553,954</u>	<u>(61,682)</u>
Net change in Fund Balance	(53,477)	48,907	(12,775)	(61,682)
Fund balance - beginning of year	<u>169,364</u>	<u>169,364</u>	<u>169,364</u>	<u>-0-</u>
Fund Balance - end of year	<u>\$ 115,887</u>	<u>\$ 218,271</u>	<u>\$ 156,589</u>	<u>(61,682)</u>

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May 31, 2005

Northland Library Cooperative  
316 E. Chisholm  
Alpena, MI 49707

We have audited the financial statements of the Northland Library Cooperative as of and for the year then ended September 30, 2004 and have issued our report thereon dated May 31, 2005. As a part of our audit, we made a study and evaluation of the Library's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. Under these standards, the purposes of such evaluation are to establish a basis for reliance on the system of internal accounting control in determining the nature, timing and extent of other auditing procedures that are necessary for expressing an opinion on the general purpose financial statements and to assist the auditor in planning and performing his audit of the general purpose financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing general purpose financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management either with respect to the execution and recording of transactions or with respect to the estimates and judgments required in the preparation of general purpose financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

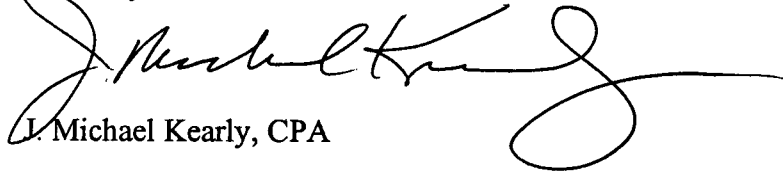
Our audit of the general purpose financial statements made in accordance with generally accepted auditing standards, including the study and evaluation of the Northland Library Coopertive's internal accounting control for the year ended September 30, 2004 that was made for the purposes set forth in the first paragraph of this report, would not necessarily disclose all weaknesses in the system because it was based on selective tests of accounting records and related data.

However, such a study and evaluation did not disclose a condition that we believe to be a material weakness.

If we can be of any further assistance to you, please do not hesitate to contact us.

We express our appreciation for the courtesies and cooperation extended to us while conducting the audit.

Sincerely,

A handwritten signature in dark ink, appearing to read "J. Michael Kearly", with a long, sweeping horizontal line extending to the right.

J. Michael Kearly, CPA